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C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 003751

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ENERGY FOR WILLIAMSON, STATE FOR EB/ESC/IEC, NEA/ARP

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TAGS: [ENRG](#) [EPET](#) [ECON](#) [KU](#) [OIL](#) [SECTOR](#)

SUBJECT: PETROLEUM CEO ON AMERICAN AND KUWAITI REFINERIES,
PROJECT KUWAIT, POWER SHORTAGES, AND REGIONAL THREATS

REF: A. KUWAIT 3720
[1](#)B. KUWAIT 3718
[1](#)C. KUWAIT 3620
[1](#)D. KUWAIT 3326
[1](#)E. KUWAIT 0676

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d)

[1](#)1. (C/NF) Summary and Comment: On 17 September, the Ambassador met with Kuwait Petroleum Corporation (KPC) CEO Hani Hussain to discuss energy issues and regional concerns. Hussain was reluctant to share details regarding Kuwaiti plans for North American refinery investment, saying that the economic analysis had not yet been completed. When pressed, he said that joint ventures in Eastern Canada or Aruba appeared to be the most attractive options. He agreed to accept an invitation from the Department of Energy to visit the U.S. this fall for further discussions. Hussain expressed pessimism about Project Kuwait (the \$8.5 billion project for foreign participation in northern oil field development) claiming that the project was being held hostage by domestic politics, specifically by populist resistance from newly empowered Opposition MPs and the political vulnerability of the new Energy Minister. He said power shortages were likely to continue at least until the summer of 2008 and suggested that mismanagement within the Energy Ministry was largely to blame. Regarding development of the newly discovered gas field announced in February, Hussain was optimistic, saying preliminary reports indicated that production could start at 1 million cu. ft/day in 2007 and eventually reach 170 million cu.ft/day. A full assessment will be completed in November. He expressed hope that development of this gas field could allow Kuwait to switch to gas-based power generation. On fuel for Iraq, Hussain insisted that Kuwait was meeting all its contractual obligations. On diesel shipments to Lebanon, he said that deliveries had been halted during the Israeli blockade but were expected to arrive by the end of September. Eager to discuss regional security, he said Kuwait was most concerned about Iran's intention to establish itself as a regional power and Iraq's potential to fracture along sectarian lines. End Summary and Comment.

KPC to Talk with DOE on American Refinery Investment

[1](#)2. (C/NF) In a 17 September meeting with KPC CEO Hani Hussain, the Ambassador began by following up on a discussion about North American refinery investment from the 5 September meeting between POTUS and the Kuwaiti Amir. The Ambassador asked which of the potential sites the GOK was leaning toward. Hussain said he was reluctant to share specific details of investment plans due to the confidentiality concerns of his prospective U.S. partners, but he

acknowledged that of all the options under consideration, prospective joint ventures with Irving Oil in New Brunswick, Canada and Valero Energy in Aruba seem to be the leading candidates. He emphasized that it was important for KPC to select a partner with a well-established presence in the place where the refinery would be built. Hussain said a comparative economic analysis of the different refinery options was due to be completed within coming weeks. When the Ambassador pursued the possibility of building the refinery within the U.S., Hussain said this option was still on the table, but concerns over "developed country regulations" and permitting made the U.S. option less attractive. He also expressed worries about exposure to hurricanes. The Ambassador explained that the USG could offer some assistance to facilitate the permitting process. When the Ambassador asked about the DOE's invitation for Hussain to discuss the matter in Washington, Hussain said he welcomed the opportunity but would prefer to wait until his team completes the economic analysis. He said he would be on vacation during the early part of October and left open the possibility of conducting the meeting in late October or early November.

Project Kuwait Stalled due to Domestic Politics

13. (C/NF) Turning to Project Kuwait, the Energy Ministry's proposed \$8.5 billion project to partner with international oil companies to develop four of Kuwait's northern oil fields (ref B), Hussain said he was pessimistic about any progress in the near term. He explained that the new Energy Minister, Shaykh Ali Jarrah Sabah Al-Sabah, faced a difficult political situation due to populist resistance to Project Kuwait by a bloc of Opposition MPs as well as public outrage over

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unprecedented power outages and water shortages (ref A). Some of these MPs, led by Ahmad Al-Saadoun, three-time former Speaker of the Parliament, insist that any contracts associated with the project should be individually ratified by the full Parliament. Given the current political vulnerability of Shaykh Ali, who is now facing calls for his resignation over the electricity and water shortages, Hussain thought it unlikely that the Government would renew its efforts to approve Project Kuwait in the near future. When asked if he thought the Minister would survive the political crisis, Hussain avoided giving a direct answer, saying that Shaykh Ali would be meeting with Opposition MPs to discuss their concerns after Ramadan (which ends o/a 24 October).

Electricity and Water Shortages Will Persist

14. (C/NF) Regarding electricity and water shortages, Hussain blamed the problems on "tremendous overusage," inefficiencies in the distribution system, and poor management at the Energy Ministry's Electricity and Water Division. He said power and water problems would continue at least through 2007 due to the lead time required to bring additional generating capacity online. Hussain said the Minister was "very upset" with some of the managers at Electricity and Water, some of whom have recently been suspended pending the outcome of the Ministry's internal investigation into the shortages. He did not know if any of these individuals would be fired since there might not be any qualified candidates to replace them.

Gas Discovery Looks Promising

15. (C/NF) In speaking about power generation, Hussain added that new capacity could be brought online more quickly and more economically if Kuwait switched from fuel oil/steam turbine generation to natural gas/gas turbine generation. He said that in November, the Kuwait Oil Company (KOC) would report its assessment of the 35-trillion cu.ft (est.)

non-associated gas field discovery announced in February (ref E). Hussain said that preliminary reports indicated that production of 1 million cu.ft/day could start as early as 2007, eventually ramping up to 170 million cu.ft/day. He said KOC was very optimistic about this field which could allow Kuwait to convert all of its power plants to gas, thus freeing up more oil for export.

Neutral Zone Refinery Controversial but Necessary

¶6. (C/NF) When the Ambassador asked about KPC's plans to build its fourth and largest refinery at a controversial site in the partitioned neutral zone between Kuwait and Saudi Arabia (ref C), Hussain said he could not understand Saudi Arabian Texaco's (SAT) objection to the proposed site. He explained that he had visited the site three weeks earlier and did not believe the refinery construction would have any impact on SAT's operations, although he understood that this had become a "big political issue" since the GOK received a letter from Prince Saud Al-Faisal stating the KSA's objection to the plans. Nevertheless, he said that the project was moving forward since Kuwait could "not afford to delay." Bidding for the project's contracts will close within the next month. He added that KPC had good relations with Chevron (the parent company of SAT) in other areas, especially Chevron's technical assistance to KOC in processing heavy crude. The Ambassador offered to talk with SAT to ensure that they clearly communicate their specific objections to the project.

Diesel Deliveries to Lebanon

¶7. (C/NF) On fuel deliveries to Lebanon, Hussain said that diesel shipments which had been en route to Lebanon in July had to be diverted once the conflict between Israel and Hizballah erupted and the blockade was imposed. He said these shipments were now due to arrive in Lebanon by the end of September. Contradicting previous reports (ref D), Hussain said that Kuwaiti fuel was not sold to Lebanon at a discount but that under the contract, Lebanon was granted an unusually long term for payment. He said Kuwait offered similar terms to a number of developing countries. He added that even though there was no discount, the Kuwaiti fuel was still significantly cheaper than anything Lebanon would have been able to obtain from the Mediterranean.

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Providing Fuel to Iraq

¶8. (C/NF) Hussain said Kuwait was fulfilling all of its contractual obligations in providing fuel to Iraq. He added that he was surprised that the GOI had not requested an increase in the volume of Kuwaiti fuel delivered. He admitted that some of this fuel was "lost" en route due to problems with transportation but said that per their existing contract, the Kuwaitis left it up to the Iraqis to contract and manage the fuel carriers.

Brain Drain in Kuwaiti Oil Sector

¶9. (C/NF) Hussain said that he and several senior managers within the Kuwaiti oil sector would be retiring within the next one to two years. He said that he would have retired this year, but given the appointment of the new Energy Minister in July and the Minister's current political difficulties, he feels it is an inopportune time to retire. In addition to the departure of retirees, Hussain said KPC is suffering from an exodus of many of its most qualified managers and engineers who, given the current profitability and growth of the petroleum industry, are leaving to pursue better salaries with private companies or in some cases to

start companies of their own.

Regional Threats from Iran and Iraq

¶10. (C/NF) Hussain was eager to talk with the Ambassador about regional threats and said that Iran and Iraq were the biggest areas of concern for Kuwait and the other Gulf countries. Hussain said a number of friends and colleagues who traveled to Iran remarked on the difficulty of the domestic economy and the increasing reluctance of the Iranian public to make sacrifices domestically in order to fund the "exporting of the revolution." Conversely, Hussain thought the Iranian government's position on nuclear technology was the one issue that all Iranians supported and rallied around. He said that Iran clearly aspired to regional superiority, as this ambition was inherent in the "Persian character." On Iraq, he said Kuwait's biggest fear was the spread of political instability and sectarian violence. Iraq's division into three quasi-independent entities was an increasingly likely outcome, a development Hussain said would significantly undermine regional stability.

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